

INDEPENDENT SPECIAL DISTRICTS OF ORANGE COUNTY, CALIFORNIA

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**“LET THERE BE LIGHT”**

**DRAGGING SPECIAL DISTRICTS FROM THE SHADOWS**

*“No government ever voluntarily reduces itself in size.*

*Government programs, once launched, never disappear.*

*Actually, a government bureau is the nearest thing to eternal life we’ll ever see on this earth!”*

*Ronald Reagan*

**SUMMARY**

Orange County has almost as many independent special districts as city governments. Special districts are independent government agencies formed many years ago to provide services that neither the county nor the local cities were able or willing to provide. Orange County contains 27 of these special districts.

Between 1919 and 1964, when the population of the county was about a quarter of what it is today, only two-thirds of the cities were incorporated. These local independent governments (special districts) are not accountable to local cities, the County of Orange, or the State of California for their day-to-day operations. Some are funded by allocations from the 1% property tax and fees and are governed by locally elected or appointed directors. They have generated annual budgets totaling more than \$718,000,000 and amassed unrestricted reserves greater than \$866,000,000.

The 2011-2012 Orange County Grand Jury believes these special districts should be removed from the county government tax system, absorbed by other agencies, consolidated, or privatized.

No logical reason exists for these agencies to continue to use tax dollars to finance themselves. Numerous studies have declared California special districts “ineffective” and “redundant”. However, their operational independence, from not only city, county and state government, but also local tax-paying citizens has perpetuated their existence. While each performs actual or perceived necessary services, the continued independent structure of some special districts has become “unnecessary or obsolete.”<sup>1</sup>

For over fifty years, various government agencies have identified inefficiencies and lack of transparency of these once useful government agencies. During that time, only minor changes have been made to correct or dissolve most of these shadow governments.

Past recommendations should be reconsidered for implementation. Sewer and water districts (often considered “enterprise” districts) should be weaned from the tax rolls and become solely fee based, and possibly privatized. Community service districts (often considered “non-enterprise” districts) should remove themselves from the tax rolls and have their services provid-

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<sup>1</sup> Orange County Grand Jury; *Report on Special Districts and County Islands*; October 21, 1971

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ed by the surrounding cities or local homeowners associations. Library districts should be absorbed into the local city government or the County Library System. The County Cemetery District and the County Vector Control District, the only countywide special districts, should be incorporated into the general county budget.

All taxes for special districts and other government agencies should be made transparent by specifically showing them separately within the 1% property tax bill sent to the taxpayer. All the allocations for the various government taxes and assessments should be clearly shown on the secured property tax bill. The taxpayer deserves to know where the taxes are being allocated. The Board of Supervisors should require that each tax and assessment be set forth plainly on the tax bill similar to the FDA requirement of showing the make-up and content of food and drugs. In addition, all the special districts should provide their constituents with an independent performance audit at least once every three years.

Finally, the special districts should be commended for the services they have provided in the past, and given a hearty blessing for the tax-free services they will provide in the future.

### **REASON FOR STUDY**

This study is aimed at informing the public about special districts.

- What are the special districts in Orange County?
- How are they governed?
- Who are their constituents?
- What do they provide to their constituents?
- How are constituents involved in the operations?
- What is the source of special district funds?
- What are the assets and reserves of the special districts?
- Are alternative sources of funds and services available?

This study addresses these questions about Orange County special districts:

- Why, when and how were they formed?
- Is their original intent still being met?
- Are they still meeting their purpose?
- How well do they communicate with their constituents?
- Are there better ways to finance them and meet the needs of their constituents?

### **METHOD OF STUDY**

The 2011-2012 Orange County Grand Jury used the following resources and methodology to learn about the special districts in Orange County.

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- Reviewed county and state sources to define special districts and determine how many are in Orange County.
- Identified the special districts in Orange County.
- Reviewed LAFCO reports.
- Reviewed the state laws related to the various special districts.
- Reviewed the past Grand Jury reports related to special districts.<sup>2</sup>
- Reviewed the web sites of special districts for clarity and transparency.
- Reviewed the Orange County Auditor-Controller's tax ledgers.<sup>3</sup>
- Compiled the data and information from the special districts in Orange County.<sup>4</sup>
- Presented findings and recommendations.

Some of these were informative. Others gave direction for further resources and all were educational.

Much of the data used in this was gathered from the various special districts response to a request for information from the 2011-2012 Orange County Grand Jury. Some represented different fiscal years. Consequently, at the time of the publication of this study the data may differ.

## BACKGROUND AND FACTS

### What is a special district?

The Government Code of California defines a special district as “any agency of the state for the local performance of governmental or proprietary functions within limited boundaries”.<sup>5</sup> They have four common characteristics:

- A form of local government;
- Governed by a board of directors;
- Providing services and facilities;
- Defined by specific boundaries.

Special districts have also been categorized as “enterprise districts” (those that sell products) or “non-enterprise districts” (those that only provide services) and “independent” or “dependent” special districts. All the special districts studied herein were “independent” special districts.

The number of special districts varies depending on one's definition. Among others, they include fire protection, cemetery, community service, county water, state water, reclamation, resource

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<sup>2</sup> See *Appendix A* for a list of past related grand jury reports

<sup>3</sup> Orange County Auditor-Controller web site; *Tax Ledger; Special Districts and Mello-Roos CFD-Governed by Local Boards (Bank elsewhere) and Special Districts and Mello-Roos CFD-Governed by Local Boards (Bank with OC Treasurer)*; 12/2/2011

<sup>4</sup> See *Appendix B* for information gathering letter sent to the special districts

<sup>5</sup> *California Government Code* §16271

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conservation, sanitation, and recreation & parks. The State Controller identifies 4,787 of these special districts in the State of which 55 are in Orange County.<sup>6</sup> The California Little Hoover Commission in their 2000 report noted more than 3,800 special districts in the State.<sup>7</sup> The California Special Districts Association identifies 2,189 special districts statewide. The Orange County Register lists 75 special districts in Orange County.<sup>8</sup> The Orange County Auditor-Controller's office lists only 40 special districts.<sup>9</sup> So, how many special districts are in Orange County?

The Local Agency Formation Commission (LAFCO) of Orange County, which is authorized to facilitate constructive changes in governmental structure and boundaries,<sup>10</sup> identifies only 27 special districts within the county.<sup>11</sup> The 2011-2012 Orange County Grand Jury study centers on these 27 agencies. Please see the maps (Figures 2, 3 & 4 prepared by LAFCO) on pages 6, 7 & 8 for the location of these various special districts.

Thirteen additional special districts that are on the Auditor-Controller's list, but are not on LAFCO's list, include major countywide agencies such as:

- Orange County Flood Control;
- Orange County Fire Authority;
- Orange County Sanitation District;
- Orange County Transit Authority; and
- several County Service Areas (CSAs),<sup>12</sup> that include:
  - Cypress Recreation and Parks;
  - Garden Grove Sanitary;
  - Laguna Beach County Water;
  - Santiago Water (now a part of the Irvine Ranch Water District).

The 27 special districts in Orange County were formed as early as 1919 and as late as 1964. They include six community service districts, two library districts, two countywide districts, one parks and recreation district, four sanitation districts, five combined water and sanitary districts, and seven water districts.

See Figure No. 1 for a graphic illustration of the founding of cities and special districts versus the growth of Orange County.

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<sup>6</sup> California State Controller John Chiang; *Government Compensation in California*; Calendar Year 2009

<sup>7</sup> California Little Hoover Commission; *Special Districts: Relics of the Past or Resources for the Future*; Executive Summary; May 2000

<sup>8</sup> Orange County Register; *OC Watchdog*; May 9, 2011

<sup>9</sup> Orange County Auditor-Controller; *2011 Tax Ledger Tables*

<sup>10</sup> Orange County; *LAFCO Mission Statement*

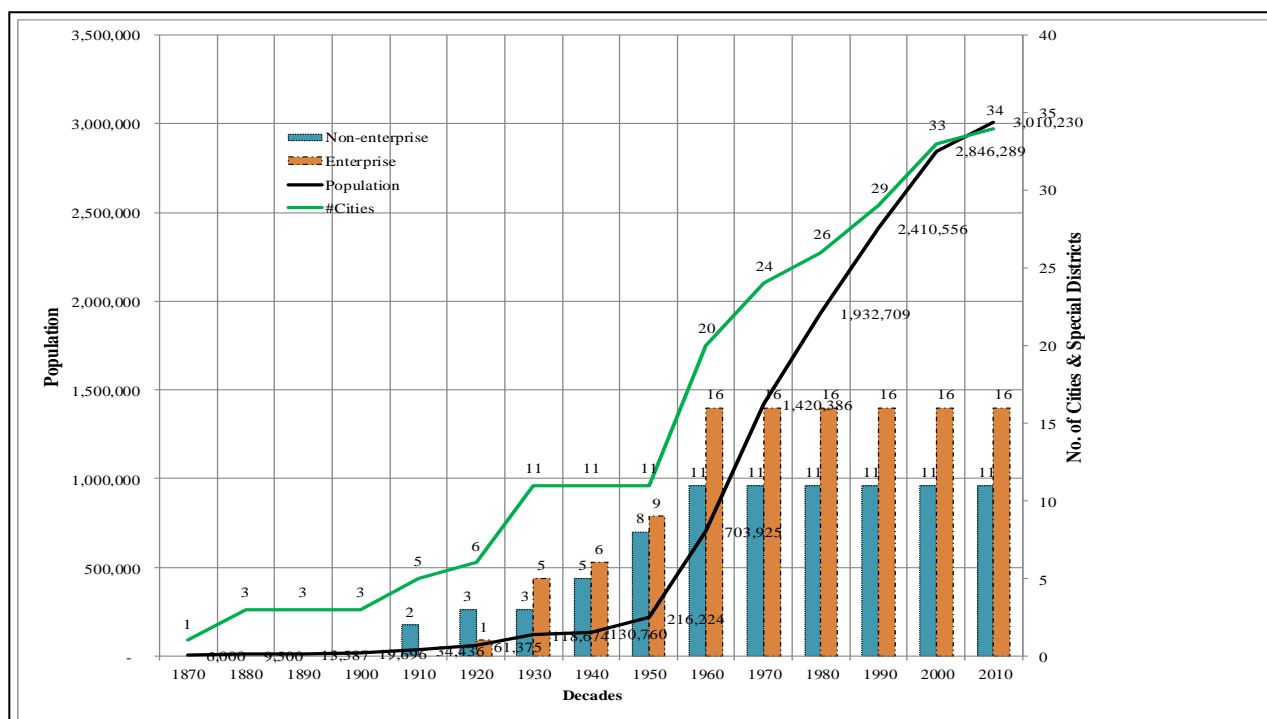
<sup>11</sup> LAFCO website; <http://colafco.org>; *Special Districts Under Orange County LAFCO Jurisdiction*; Nov. 23, 2011 (with the exception of the Orange County Sanitation District and Laguna Beach County Water District)

<sup>12</sup> Ibid.11

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The special districts in Orange County have combined budgets of more than \$718,000,000 and total assets of over \$5,075,000,000 with net assets of \$2,774,000. Total cash and investments (unrestricted reserves) of these special districts exceed \$866,000,000.

**Figure No. 1 – Growth of Orange County Population, Cities and Special Districts**



### How were special districts created?

Special districts were formed “to meet the demands of a disparate population for municipal services, such as sewer, streets and lighting, and fire protection.”<sup>13</sup> The State Legislature allowed creation of special districts to provide services that were not readily available through city or county government.<sup>14</sup>

The formation of special districts is authorized under various California Codes, i. e., the Government Code, the Education Code, the Health and Safety Code, and various Water Codes. An election by the constituents is required to form a district. The Board of Supervisors of the county then approves it, (and today requires LAFCO approval) and then a board of directors is elected. Revenues may include taxes, fees, interest, or combinations of these and other lesser sources.

Special districts are independent government bodies. Their local operations are not governed by the state, counties or cities, but solely by their board of directors who are typically elected or ap-

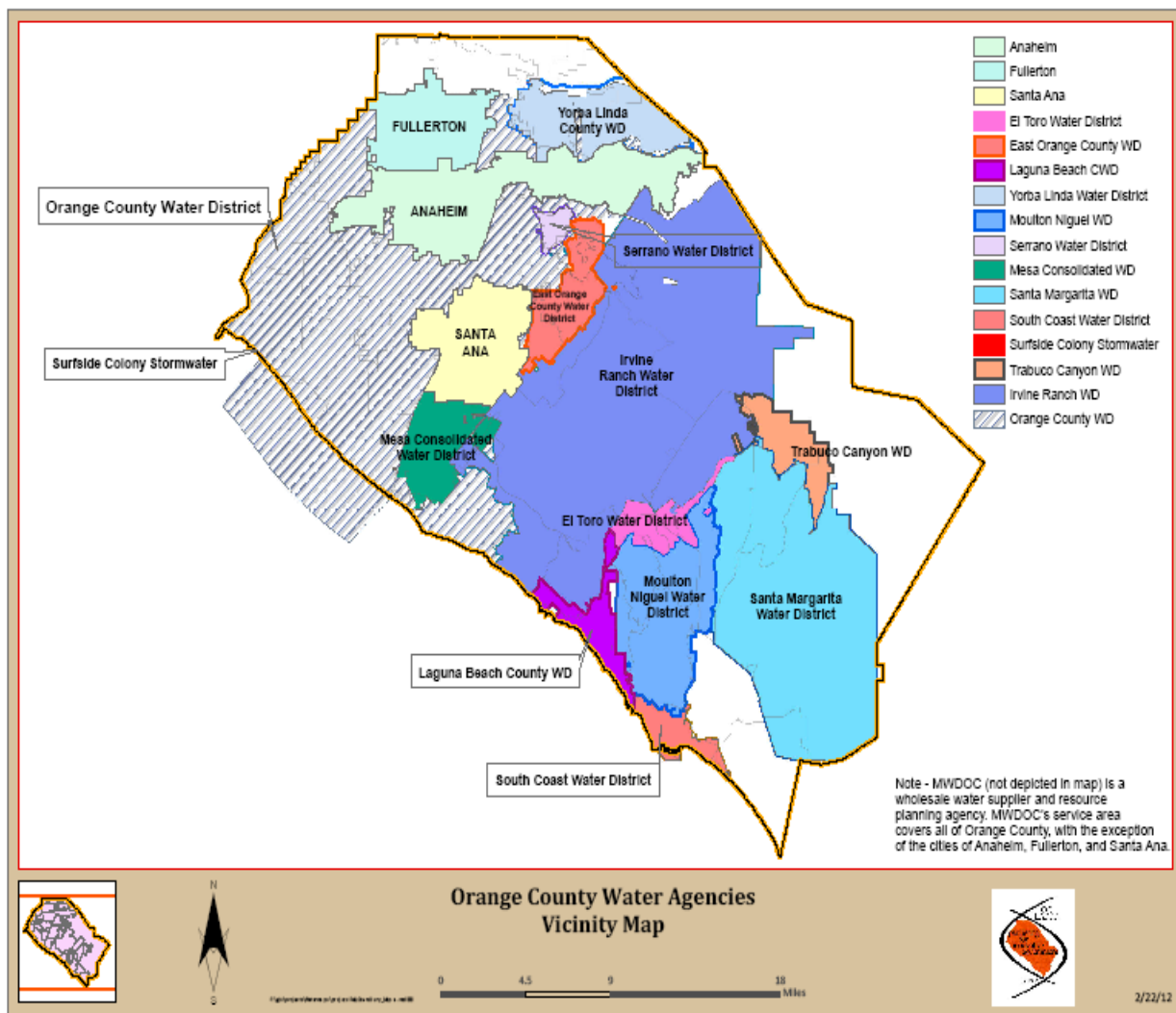
<sup>13</sup> California Debt and Investment Advisory Commission; *Understanding Special Districts and Public Debt*; Volume 19, No. 8; August 2000

<sup>14</sup> *California Government Code* §16271

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pointed by their constituents. They do not include “a city, a county, a school district or a community college district.”<sup>15</sup>

**Figure No. 2** – Location of the Orange County Water Special Districts



### How are special districts governed?

Most special districts are governed by a five-member board of directors elected by the constituents of the district. One countywide district, the Vector Control District, has 35 directors representing each of the Orange County 34 cities and the county. Special district board meetings are held at least monthly and the directors are paid up to \$200) for each meeting (although some

<sup>15</sup> California Government Code; *Fiscal Affairs*; §16271 (d)

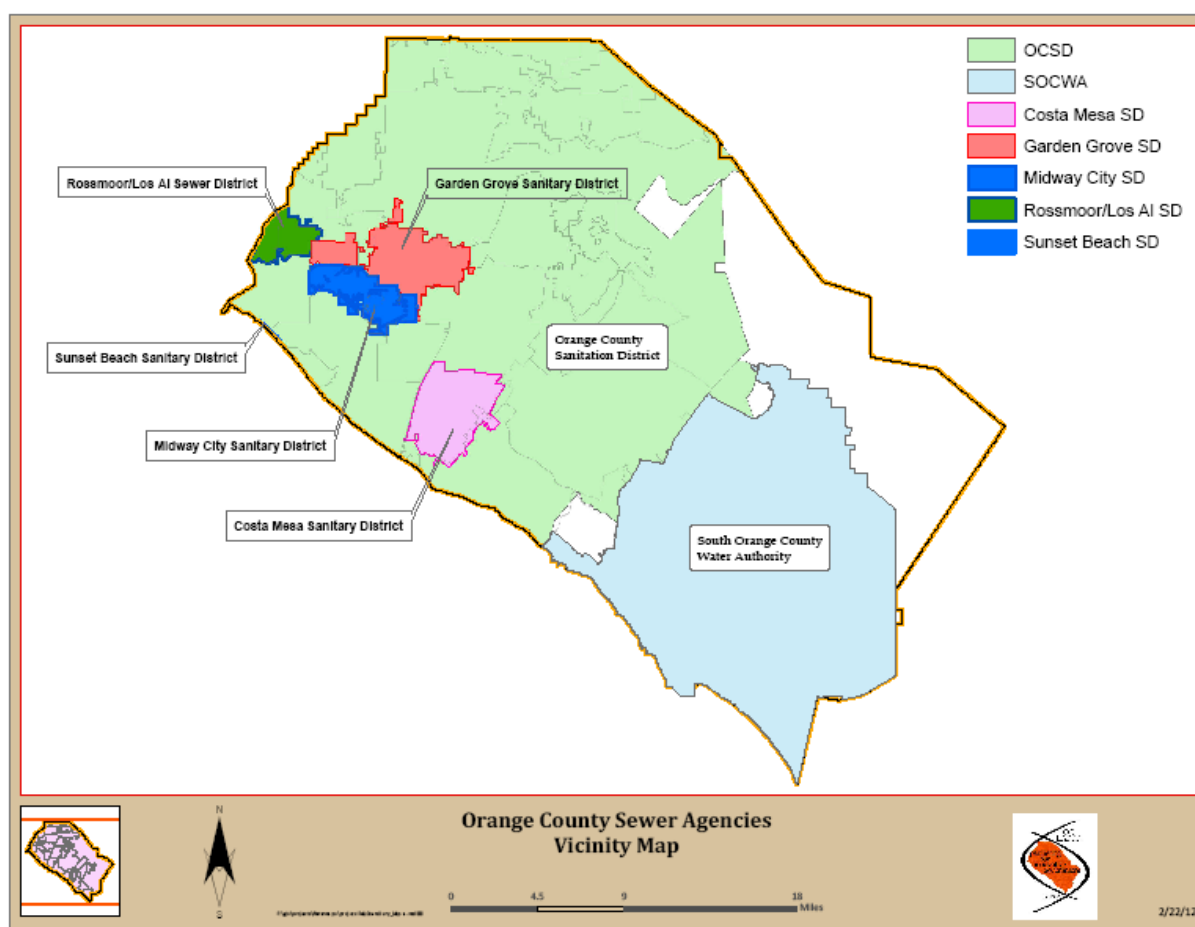
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smaller districts have elected boards serving without compensation). Elected terms are usually two years.

The agendas and the minutes are typically posted on their websites, if one exists. A sampling of last year's minutes from the special districts showed fewer than ten public comments per year at these public meetings.<sup>16</sup>

All but four of the special districts have websites.<sup>17</sup> They communicate to the public about the purpose, board of directors, finances and other matters concerning the function and operation of the organization.

**Figure No. 3** – Location of Orange County Sewer Special Districts



The day-to-day operations of the special districts are delegated to a general manager and his/her staff. The smallest management is one-person half time at a cost of \$61,000 per year.<sup>18</sup>

<sup>16</sup> Placentia Library District (2); Orange County Vector Control (0); Emerald Bay Service District (3); Midway City Sanitary District (9); Orange County Water District (7); and Santa Margarita Water District (1).

<sup>17</sup> Surfside Colony Storm Water Protection Dist.; Capistrano Bay Community Service Dist.; Surfside Colony Community Service Dist.; Emerald Bay Community Service Dist.

<sup>18</sup> Rossmoor/Los Alamitos Area Sewer District

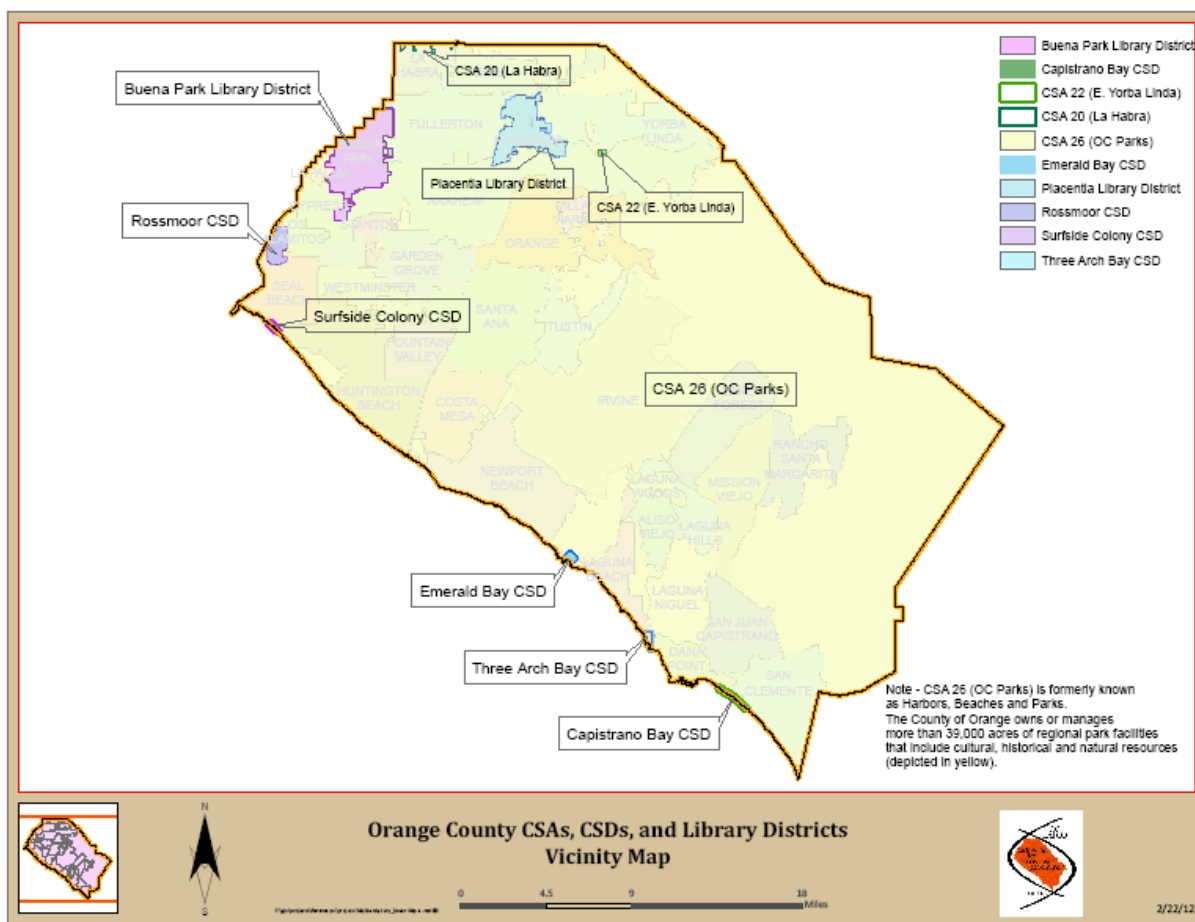


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A typical general manager's team has at least twelve employees with salaries totaling of over \$1,100,000.<sup>19</sup>

All special districts are required by law to have their finances audited each year. These are public documents. These audits allow the board of directors and the community to review the assets and liabilities of their district and to see how their revenues have been used.

**Figure No. 4 – Location of Orange County Non- Enterprise Special Districts**



The law does not require that special districts have performance audits that would evaluate the effectiveness and efficiency of the agency's operation. Only the Orange County Board of Supervisors and one of the 27 special districts in Orange County have independent performance audits. That was the South Coast Water District, which had a performance audit done in 2002 and 2011.<sup>20</sup>

### What are the types of special districts in Orange County?

<sup>19</sup> Santa Margarita Water District

<sup>20</sup> matrix consulting group; *(Draft) Report on Organizational Effectiveness---SOUTH COAST WATER DISTRICT*; Palo Alto, CA; August 2011



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The twenty-seven special districts as identified by LAFCO (Local Agency Formation Commission), and the dates they were founded and their current services are:

**Community Service Districts**

- Surfside Colony Storm Water Protection District---1940
- Surfside Colony Community Service Tax District---1940 (Limited to parks and Recreation, security services, and street improvement, maintenance & repair.)
- Three Arch Bay Community Service District---1958 (Limited to collection, treatment & disposal of storm water; and security services.)
- Capistrano Bay Community Service District---1959 (Limited to parks and recreation, security services, and street lighting.)
- Emerald Bay Community Service District---1960 (Limited to water supply; collection, treatment & disposal of sewage; collection, transfer & disposal of solid waste; parks & recreation; street improvement, maintenance & repair; and security services.)
- Rossmoor Community Service District---1986 (Limited to parks & recreation, security services, and street improvement, maintenance & repair.)

The current services have been limited by LAFCO to the services that were being provided in 1995.<sup>21</sup> Most of these services are also currently being provided by their surrounding cities, or are typically provided by homeowners' associations. Emerald Bay Community Services District reports that they contract their services with their homeowners' association.

**County-Wide Special Districts**

- Orange County Cemetery District---1927 (Consolidated in 1985)
- Vector Control District---1947

**Library Districts**

- Buena Park Library District---1919
- Placentia Library District---1919

These library districts were formed by the vote of less than 100 voters in 1919. They provide library services solely to Buena Park & Placentia. Today these cities have populations of over 84,000 and 52,000,<sup>22</sup> respectively.

**Parks and Recreation Districts**

- Silverado/Modjeska Recreation and Parks District---1961

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<sup>21</sup> LAFCO; *Compliance with Newly Revised Community Service District Statute (§61100 et seq); Inventory of Services for Community Services Districts (CSDs)*; December 14, 2005

<sup>22</sup> 2010 US Census, *Demographics by Orange County Jurisdiction*.

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**Sewer Districts**

(Provide for the collection and treatment of sewage.)

- Sunset Beach Sanitary District---1930
- Midway City Sanitary District---1939
- Costa Mesa Sanitary District---1944
- Rossmoor/Los Alamitos Area Sewer District---1952

**Sewer/Water Districts**

(Provide collection and treatment of sewage & distribution of drinking water.)

- South Coast Water District---1932 (Consolidated w/ 3 other districts in 1999)
- Yorba Linda Water District---1959
- El Toro Water District---1960
- Irvine Ranch Water District---1961 (Now consolidated with 6 other districts)
- Moulton Niguel Water District---1962
- Trabuco Canyon Service District---1962
- Santa Margarita Water District---1964

**Water Districts**

(Provide potable and non-potable water.)

- Serrano Water District---1927
- Orange County Water District---1933
- Municipal Water District of Orange County---1951
- Mesa Consolidated Water District---1960
- East Orange County Water District---1961

**How are special districts funded?**

Special districts are funded by taxes, fees, interest, and other sources, or combinations thereof.<sup>23</sup> Some districts are funded solely by taxes. Taxes and fees fund others, and still others are funded solely by fees. Additional funds come from special assessments, bond issues and interest on investments. See Tables No. 1a & 1b and No. 2a & 2b

**Community Service Districts (Non-enterprise)**

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<sup>23</sup> Various financial audit reports submitted by the districts in August 2011.

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- Emerald Bay Community Service District---taxes
- Capistrano Bay Community Service District---taxes and fees
- Rossmoor Community Service District---taxes and fees
- Surfside Colony Community Service Tax District---taxes and fees
- Surfside Colony Storm Water Protection District---taxes
- Three Arch Bay Community Service District---taxes and fees

**County-Wide Special Districts (Non-enterprise)**

- Orange County Cemetery District---taxes and fees
- Vector Control District---taxes and assessments

**Library Districts (Non-enterprise)**

- Buena Park Library District---taxes and fees
- Placentia Library District---taxes and fees

**Parks and Recreation Districts (Non-enterprise)**

- Silverado/Modjeska Recreation and Parks District---taxes and fees

**Sewer Districts (Enterprise)**

- Costa Mesa Sanitary District---taxes and fees
- Midway City Sanitary District---taxes and fees
- Rossmoor/Los Alamitos Area Sewer District---taxes and fees
- Sunset Beach Sanitary District---taxes and fees

**Sewer/Water Districts (Enterprise)**

- El Toro Water District---taxes and fees
- Irvine Ranch Water District---taxes and fees
- Moulton Niguel Water District---taxes and fees
- Santa Margarita Water District---taxes and fees
- South Coast Water District---fees
- Trabuco Canyon Service District---taxes and fees
- Yorba Linda Water District---fees

**Water Districts (Enterprise)**

- East Orange County Water District---taxes and fees

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- Mesa Consolidated Water District---fees
- Municipal Water District of Orange County---fees
- Orange County Water District---taxes and fees
- Serrano Water District---fees

From 33 to 98 percent of the non-enterprise special districts' budgets come from the property tax allocation. From zero to 90 percent of enterprise special districts' budgets come from the property tax allocation. Some special districts that had tax allocations shown by the Auditor-Controller showed no tax revenue in their budgets. This was attributed to lack of certainty of funding from the State.

The Orange County Auditor-Controller makes the 1% property tax allocation to each special district each year. Such allocations are dictated by the 1978-79 State Legislation in response to the issues raised by Proposition 13 that was passed by the California electorate in 1978. The Controller-Treasurer of Santa Clara County in a guide to the allocation process stated, "Annually, county auditors calculate the county's prior year property tax administrative costs of the assessor, tax collector, assessment appeals board, and the auditor-controller. Costs include direct costs, all activities directly involved in processing property taxes, and overhead costs, as calculated in accordance with federal Office of Management and Budget (OMB) Circular A-87 standards. Off-setting revenues, received to reimburse counties for portions of property tax administration, are deducted from the prior year costs."<sup>24</sup> Eleven percent of the Orange County tax dollar was allocated to special districts in 2010-2011.<sup>25</sup>

Allocations from the Auditor-Controller are made to all of the special districts totaling \$182,884,000. Three special districts receive no tax allocation from the Auditor-Controller. These are:

- Mesa Consolidated Water District;
- Municipal Water District of Orange County;
- Serrano Water District.

They rely solely on assessments, fees, interest and other sources for their revenue.

Costa Mesa Sanitary District, South Coast Water District, Trabuco Canyon Water District, and Yorba Linda Water District have nearly \$35,000,000 allocated to them by the Auditor-Controller, but do not show this revenue in the budgets. These four special districts are all enterprise districts. Some budget notes suggest that tax revenue was not included because of the uncertainty of the State financial condition. The actual receipt of that tax allocation is not documented.

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<sup>24</sup> Elledge, David G., Controller-Treasurer, County of Santa Clara; *Demystifying the California Property Tax Apportionment System, a Step-by Step Guide Through the AB 8 Process*; March 2006.

<sup>25</sup> County of Orange; *2011 Facts and Figures*

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**SPECIAL DISTRICTS BUDGETS, ASSETS, TAXES & FEES**

Special districts in Orange County have total budgets of more than \$718,000,000 with unrestricted reserves of more than \$866,000,000. (These reserves are unrestricted and “...available for spending at the special districts’ discretion,” or they “...may be used to meet the District’s ongoing obligations to citizens and creditors.”)<sup>26</sup> Total assets exceed \$5,075,000,000 with net assets exceeding \$2,774,000,000. Total taxes allocated by the Auditor-Controller exceed \$183,000,000. The cost of collecting and distributing them was \$933,356.

The non-enterprise special district with the smallest budget of \$135,000 and the least net assets of \$277,000 was Surfside Colony Storm Water Protection District. The largest non-enterprise special district, The Orange County Vector Control District, had a budget of \$10,503,000. The most net assets held by non-enterprise districts are \$22,818,000 held by the Orange County Cemetery.

Of the enterprise special districts, the Orange County Water District had the largest budget at \$159,100,000. The Irvine Ranch Water District had the most net assets at \$1,334,700,000. The enterprise special district with the smallest budget was the Rossmoor/Alamitos Area Sewer District with \$376,000. Moulton Niguel Water District had the fewest net assets at \$389,000.

The Irvine Ranch Water District financial audit identifies “Cash and Investments” to be \$225,431,000. Lacking identification of either restricted or unrestricted reserves in that document this figure was considered unrestricted. However, further discussions with representatives from IRWD showed that all funds are reserved.

Non-enterprise special districts that have unrestricted reserves greater than their annual budgets are:

- Emerald Bay Service District;
- Orange County Cemetery District;
- Rossmoor Community Service District;
- Surfside Colony Community Service Tax District;
- Surfside Colony Storm Water Protection District;
- Three Arch Bay Community Service District.

Enterprise special districts that have unrestricted reserves greater than their annual budgets are:

- East Orange County Water District;
- Irvine Ranch Water District;
- Midway City Sanitary District;
- Moulton Niguel Water District;

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<sup>26</sup> Various financial audit reports obtained from the districts, August 2010.

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- Orange County Water District;
- Rossmoor/Los Alamitos Area Sewer District;
- Santa Margarita Water District;
- South Coast Water District;
- Sunset Beach Sanitary District;
- Trabuco Canyon Water District.

The enterprise districts that have unrestricted reserves less than their budgets are:

- Costa Mesa Sanitary District.
- El Toro Water District;
- Mesa Consolidated Water District;
- Municipal Water District of Orange County;
- Serrano Water District;
- Yorba Linda Water District.

The non-enterprise districts that have unrestricted reserves less than their budgets are:

- Buena Park Library District;
- Capistrano Bay Community Service District;
- Orange County Vector Control District;
- Placentia Library District;
- Silverado-Modjeska Recreation & Parks District.

Only the Silverado-Modjeska Recreation & Parks District showed no unrestricted reserves.

The 97 special districts listed in Orange County in 1979-80, had a total budget of \$309,800,000. The 27 special districts listed in 2011 had a total budget of \$718,592,000.<sup>27</sup>

**Tables 1a & 1b** – General Financial Data for Orange County Special Districts

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<sup>27</sup> Note that the revenues in the budgets of the two wholesale water purveyors, MWDOC and OCWD reflect expenses in the budgets of the other retail water purveyors.

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Table #1a Taxes Allocations and Budgets for Enterprise Special Districts

ENTERPRISE SPECIAL DISTRICTS	Auditor/Controller Allocations, 2010-11	Taxes & Assessments, 2011-12	Sewer Revenue	Water Revenue	Fees	Interest	Other Revenue	TOTAL REVENUE	% Taxes /Total Revenue
Costa Mesa Sanitary Dist.	10,542,000	0			10,269,000	184,000	2,560,000	13,013,000	0%
E Orange Co Water Dist.	919,000	610,000		2,527,000	472,000	0	101,000	3,710,000	16%
El Toro Water Dist.	1,682,000	2,464,000	5,722,000	11,777,000	3,000,000	1,400,000	9,584,000	33,947,000	7%
Irvine Ranch Water Dist.	38,271,000	38,400,000	45,300,000	51,300,000		50,100,000	20,400,000	205,500,000	19%
Mesa Consolidated Water Dist.	0	0		28,054,000		1,000	5,786,000	33,841,000	0%
Midway City Sanitary Dist.	8,085,000	1,343,000			6,634,000	97,000	1,017,000	9,091,000	15%
Moulton Niguel Water Dist.	27,549,000	27,406,000	12,543,000	20,579,000	4,447,000	4,546,000	3,241,000	72,762,000	38%
MWD of Orange Co.	0	0		121,788,000	5,052,000	806,000	8,265,000	135,911,000	0%
Orange Co. Water Dist.	17,818,000	19,063,000				4,100,000	134,921,000	158,084,000	12%
Rossmoor/Los Alamitos Area Sewer Dist.	348,000	338,000			9,000	13,000	16,000	376,000	90%
Santa Margarita Water Dist.	32,074,000	31,117,000	15,600,000	27,526,000		2,348,000	14,534,000	91,125,000	34%
Serrano Water Dist.	0	0		4,996,000	0	0	70,000	5,066,000	0%
South Coast Water Dist.***, Cap Beach	15,549,000	0	9,919,000	11,809,000		0	820,000	22,548,000	0%
Sunset Beach Sanitary Dist.	930,000	487,000	430,000		2,000	6,000	4,000	929,000	52%
Trabuco Canyon Water Dist.	7,465,000	0		4,177,000	33,000	68,000	1,000	4,279,000	0%
Yorba Linda Water Dist.	1,367,000	0	5,114,000	23,888,000		0	695,000	29,697,000	0%
ENTERPRISESD TOTALS	162,599,000	121,228,000	94,628,000	308,421,000	29,918,000	63,669,001	202,015,000	819,879,001	15%

Table #1b Taxes Allocations and Budgets for Non-Enterprise Special Districts

NON-ENTERPRISE SPECIAL DISTRICTS	Auditor/Controller Allocations, 2010-11	Taxes & Assessments 2011-12	Sewer Revenue	Water Revenue	Fees	Interest	Other Revenue	TOTAL REVENUE	% Taxes /Total Revenue
Buena Park Library Dist.	1,614,000	1,770,000			184,000	12,000	418,000	2,384,000	74%
Capistrano Bay Com. Serv. Dist	737,000	681,000			275,000	0		956,000	71%
Emerald Bay Service Dist.	1,675,000	1,722,000				74,000	39,000	1,835,000	94%
Orange Co. Cemetery Dist.	1,480,000	1,517,000			656,000	35,000	1,466,000	3,674,000	41%
Orange Co. Vector Control Dist.*	9,949,000	9,969,000			80,000	7,000	230,000	10,286,000	97%
Placentia Library Dist. Of OC	1,842,000	1,838,000			135,000		110,000	2,083,000	88%
Rossmoor Com. Serv. Dist.**	1,398,000	1,393,000			126,000	35,000	155,000	1,709,000	82%
Silverado-Modjeska Rec. & Parks Dist.	32,000	31,000			10,000	1,000	51,000	93,000	33%
Surfside Colony Com. Serv. Tax Dist.	348,000	306,000			40,000	2,000		348,000	88%
Surfside Colony Storm Water Protection Dist.	125,000	126,000				1,000	1,000	128,000	98%
Three Arch Bay Com. Serv. Dist.	1,085,000	904,000			499,000	22,000	8,000	1,433,000	63%
NON-ENTERPRISESD TOTALS	20,285,000	20,257,000	0	0	2,005,000	189,000	2,478,000	24,929,000	81%
ALL ORANGE COUNTYSD TOTALS	182,884,000	141,485,000	94,628,000	308,421,000	31,923,000	63,858,001	204,493,000	844,808,001	17%

\* Includes 1996 &amp; 2004 Benefit Assessments; \*\* Includes Funds 10, 20, &amp; 30; \*\*\*Includes Cap Bch Wtr., Dana Pt. San., ZN 1&amp;2; &amp; RC



## INDEPENDENT SPECIAL DISTRICTS OF ORANGE COUNTY, CALIFORNIA

Table 2a &amp; 2b – Budgets, Assets and Reserves of Orange County Special Districts

Table #2a - Budgets, Assets and Reserves of Enterprise Special Districts						
ENTERPRISE SPECIAL DISTRICTS	BUDGET	TOTAL ASSETS	NET ASSETS	UNRESTRICTED RESERVES	TOTAL TAXES	COLLECTION CHARGE
Costa Mesa Sanitary Dist.	13,013,000	39,209,000	37,702,000	6,769,000	10,500,000	2,037
E Orange Co Water Dist.	6,280,000	17,722,000	16,580,000	6,303,000	924,000	8,939
El Toro Water Dist.	22,900,000	80,003,000	66,411,000	16,573,000	1,700,000	6,706
Irvine Ranch Water Dist.	110,700,000	2,606,300,000	1,334,700,000	0	39,200,000	258,013
Mesa Consolidated Water Dist.	43,994,000	119,371,000	98,980,000	14,412,000	0	0
Midway City Sanitary Dist.	9,090,000	43,616,000	33,375,000	20,055,000	8,100,000	13,846
Moulton Niguel Water Dist.	86,000,000	552,000	389,000	121,094,000	27,500,000	207,366
MWD of Orange Co.	135,700,000	44,144,000	10,086,000	8,103,000	0	0
Orange Co. Water Dist.	159,100,000	889,147,000	366,464,000	185,400,000	17,821,000	172,683
Rossmoor/Los Alamitos Area Sewer Dist.	376,000	4,730,000	4,619,000	777,000	300,000	3,377
Santa Margarita Water Dist.	83,000,000	708,971,000	384,403,000	165,300,000	31,400,000	56,433
Serrano Water Dist.	3,200,000	14,949,000	7,362,000	1,234,000	0	0
South Coast Water Dist. ***	27,500,000	191,670,000	140,870,000	38,119,000	15,400,000	40,625
Sunset Beach Sanitary Dist.	1,073,000	3,868,000	3,096,000	1,343,000	941,000	4,817
Trabuco Canyon Water Dist.	7,517,000	26,285,000	51,194,000	9,911,000	7,200,000	11,151
Yorba Linda Water Dist.	28,700,000	217,355,000	150,119,000	13,260,000	1,500,000	12,284
<b>ENTERPRISE TOTALS</b>	<b>694,149,000</b>	<b>5,007,892,000</b>	<b>2,706,350,000</b>	<b>608,653,000</b>	<b>162,486,000</b>	<b>798,277</b>

Table #2b - Budgets, Assets and Reserves of Non-Enterprise Special Districts

NON-ENTERPRISE SPECIAL DISTRICTS	BUDGET	TOTAL ASSETS	NET ASSETS	UNRESTRICTED RESERVES	TOTAL TAXES	COLLECTION CHARGE
Buena Park Library Dist.	2,126,000	3,546,000	3,170,000	2,093,000	1,624,000	15,852
Capistrano Bay Com. Serv. Dist	985,000	2,784,000	2,721,000	436,000	800,000	6,697
Emerald Bay Service Dist.	1,835,000	6,659,000	6,170,000	2,767,000	1,703,000	16,511
Orange Co. Cemetery Dist.	3,673,000	22,818,000	21,947,000	9,745,000	1,501,000	14,586
Orange Co. Vector Control Dist. *	10,503,000	15,526,000	14,668,000	10,474,000	10,013,000	42,466
Placentia Library Dist. Of OC	2,080,000	2,800,000	2,617,000	1,918,000	1,864,000	18,079
Rossmoor Com. Serv. Dist. **	1,090,000	6,790,000	6,171,000	1,358,000	1,400,000	8,956
Silverado-Modjeska Rec. & Parks Dist.	220,000	1,196,000	1,188,000	-41,000	27,000	312
Surfside Colony Com. Serv. Tax Dist.	336,000	408,000	404,000	403,000	345,000	2,986
Surfside Colony Storm Water Protection Dist.	135,000	287,000	277,000	282,000	114,000	1,231
Three Arch Bay Com. Serv. Dist.	1,460,000	4,880,000	4,460,000	3,013,000	1,143,000	7,403
<b>NON-ENTERPRISE TOTALS</b>	<b>24,443,000</b>	<b>67,694,000</b>	<b>67,694,000</b>	<b>32,448,000</b>	<b>20,534,000</b>	<b>135,079</b>
<b>ALL ORANGE COUNTY SD TOTALS</b>	<b>718,592,000</b>	<b>5,075,586,000</b>	<b>2,774,044,000</b>	<b>641,101,000</b>	<b>183,020,000</b>	<b>933,356</b>
* Includes 1996 & 2004 Benefit Assessments; ** Includes Funds 10, 20, & 30; ***Includes Cap Bch Wtr., Dana Pt. San., ZN 1&2; & RO99-07						

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In February 2009, the Government Accounting Standards Board (GASB) abandoned the reserved and unreserved classifications of fund balance and replaced them with five new classifications: Non-spendable, restricted, committed, assigned and unassigned.<sup>28</sup> None of the current financial audits reflects these changes, but they can be applicable to all forms of government as illustrated by the Placentia Library District that has adopted these standards.<sup>29</sup>

**WHAT ARE OTHERS SAYING ABOUT SPECIAL DISTRICTS?**

Special districts have been the subject of many articles, studies and reports by a variety of agencies and organizations. Following is a brief summary of some of these documents.

**Orange County Grand Juries**

The Orange County Grand Jury has addressed special districts as far back as 1971.<sup>30</sup> They concluded that many of the special districts were “unnecessary or obsolete,” “redundant or ineffective,” and “outmoded.” They recommended, among other things, that more power be given to LAFCO for “consolidation, abatement or dissolution of redundant or obsolete districts.”

In 1982, the Orange County Grand Jury produced two reports related to special districts, one on the Midway City Sanitary District and one on all special districts.<sup>31</sup> The Midway report centered on financial management and communication issues.

The special district report used a Price Waterhouse study prepared in 1982 for a Special District Task Force for the Grand Jury as the backbone for its conclusions and recommendations.<sup>32</sup> This 170-page report “focused on opportunities for improvement” but also listed the strengths of the water district departments. They included 93 recommendations for improvement to be implemented by the special districts’ general managers.<sup>33</sup>

Some of the findings of the Price Waterhouse report were that:

- “...a considerable number of inequities in the way services are charged for and in the way property tax dollars are allocated. Some homeowners pay user fees plus property tax.”
- “...it is difficult to enforce the standardization of user fees.”
- “...there is no one overall influencing or coordinating body that can encourage the provision of property related service in the most cost effective manner.”

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<sup>28</sup> GASB Statement 54; *Government Accounting Standards Board (GASB) Statement 54*; February 2009

<sup>29</sup> Placentia Library Board of Trustees’ Resolution 12-07; *A Resolution of the Board of Trustees of the Placentia Library District of Orange County to Establish New Governmental Accounting Standards Board (GASB) 54 Regulations for Fund Balance*; June 20, 2011

<sup>30</sup> Orange County Grand Jury; *Report on Special Districts and County Islands*; October 21, 1971

<sup>31</sup> Orange County Grand Jury; *Midway City Sanitary District*; June, 1982

<sup>32</sup> Price Waterhouse; *Orange County Grand Jury, Study of Potential Restructuring of Special Districts in Orange County*; June 30, 1992

<sup>33</sup> *Ibid.*; pages 2-4

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- “...eliminate the use of property tax revenues to support independent special districts.”
- Separate same-service districts should “be consolidated into one independent district...”
- “The wholesale water distribution system in Orange County has evolved over many years in a piecemeal fashion.”
- “Much of this multiple district organization structure is no longer logical or necessary.”
- “The existing structure of responsibilities for providing property related services in Orange County is not conducive to change.”
- “Independent... special districts...should standardize the use of user fees or charges such that...they are no longer utilizing property taxes to support annual operating costs.”
- “...independent districts serving only the needs of a local community, such as a community service district, should become fully supported by local fees.”<sup>34</sup>

In the years following that Price Waterhouse report, the Orange County Grand Jury produced reports on various special districts in Orange County. These included transit, library, vector control, flood control, community service, cemetery districts, the Surfside Colony Storm Water Protection District, and the Resource Conservation District.

The Orange County Grand Jury in 1986 referenced the Price Waterhouse study. The Grand Jury repeated the recommendations that the “Board of Supervisors should reaffirm its support for the Special District Task Force,”<sup>35</sup> and that “The Special District Task Force should re-evaluate its current priority list for potential reforms and continue with the objective of promoting efficiency and economy.”<sup>36</sup> They further recommended that the “Board of Supervisors should encourage cities and special districts...to support efforts to improve the special district system”.

In 1990, the Orange County Grand Jury addressed the Orange County Cemetery Special District, which consisted of four cemeteries at that time.<sup>37</sup> They recommended various management and organizational changes. (Currently the Cemetery District controls a cemetery in Anaheim, Lake Forest and Santa Ana.)

In 1993, the Orange County Grand Jury wrote a report on the Capistrano Beach County Water District.<sup>38</sup> It too, only recommended management and organizational changes.

In 1997 the Orange County Grand Jury studied water distribution rates within the local water special districts recommending management and organization improvements.<sup>39</sup>

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<sup>34</sup> Price Waterhouse; *Orange County Grand Jury, Study of Potential Restructuring of Special Districts in Orange County*; June 30, 1982.

<sup>35</sup> The Special District Task Force, established by the Board of Supervisors responding to a Grand Jury recommendation, consisted of representatives from each Supervisor, the County Counsel, the CAO and the Auditor-Controller; *OC Grand Jury Special District Task Force Review*; June 1986.

<sup>36</sup> *Ibid*; *Special District Task Force Review*; June, 1986

<sup>37</sup> Orange County Grand Jury Reports; *Evaluation of The Orange County Cemetery District*; June, 1990

<sup>38</sup> Orange County Grand Jury; *Capistrano Beach County Water District Report*; June, 1993

<sup>39</sup> *Ibid*.; *Water Distribution and Rates Within Orange County*; June 1997

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“Rats” was the Orange County Grand Jury’s study of the Vector Control District in 2002.<sup>40</sup> It addressed the rat control services of that district.

Also in 1997, the Orange County Grand Jury studied LAFCO’s effectiveness in dissolving county islands (unincorporated communities surrounded by incorporated cities) and special districts.<sup>41</sup> They concluded, “The law did not give LAFCO adequate power to initiate boundary changes or to initiate proposals of annexation or incorporation of county islands.”

The 2005 Orange County Grand Jury asked whether LAFCO was working.<sup>42</sup> They concluded that more and better communication and financial assistance might help in accomplishing LAFCO’s duties.

The Orange County Grand Jury again studied the Orange County Cemetery District in 2005.<sup>43</sup> The findings were again related to management and organization.

In 2006, the Orange County Grand Jury again studied the Vector Control District.<sup>44</sup> Only financial, morale and governance issues were covered in this report.

Water districts were the subject of a 2009 Orange County Grand Jury study.<sup>45</sup> This study, too, only addressed organizational and management issues.

In 2011, the compensation of local water and sewer districts was studied.<sup>46</sup> The 2010-2011 Orange County Grand Jury recommended greater transparency with easier access to compensation information.

### **Little Hoover Commission**

In 2000, the Little Hoover Commission of the State of California conducted an extensive study of special districts.<sup>47</sup> They examined a random sample of the 2,200 independent special districts in the State of California. They noted that “...these governments that are physically closest to their communities are oftentimes unknown to the people they serve,” and “...that when they were created, these districts were tailored to the needs of their communities. But as those communities have grown and changed, the districts themselves have been slow to change their boundaries, functions and governance to reflect their communities.” They found “...that many independent special districts have accumulated significant reserves...” and some districts “...continue to receive property tax revenues...” for services that are also fee based. They noted

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<sup>40</sup> Ibid.; *RATS!*; June, 2001-2002

<sup>41</sup> Ibid.; *A Selected Study of The Local Agency Formation Commission*; June, 1997

<sup>42</sup> Ibid.; *LAFCO-Is It Working?*; June, 2005

<sup>43</sup> Ibid.; *Orange County Cemetery District*; June, 2005

<sup>44</sup> Ibid.; *Orange County Vector Control District-Out of Control?*; June, 2006

<sup>45</sup> Ibid.; *Water Districts: A New Era in Public Involvement*; June 2009

<sup>46</sup> Ibid.; *Compensation Survey of Orange County Water and Sanitation Districts*; June 2011

<sup>47</sup> California Little Hoover Commission; *Special Districts: Relics of the Past or Resources for the Future?*; May 2000

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that the biggest hurdle was that “...local officials need technical assistance, proven methodologies and the facilitation skills to overcome the barriers to change.” They also encouraged “...community leaders, voters and customers to judge the performance of their districts for themselves.”

### **The California Debt and Investment Advisory Commission (CDIAC)**

The CDIAC addressed special districts in a 2000 report.<sup>48</sup> They pointed out that in 1996-97 “...all special districts, including joint powers authorities, public nonprofit corporations, and public financing and public financing corporations had amassed \$14.6 billion in tax-supported debt outstanding. This represents 41 percent of the outstanding tax-supported debt held by all public agencies in California.” Of this debt, the “water districts accounted for the greatest debt among all other categories of special districts.”

### **The Santa Clara County Grand Jury**

In 2005-2006, the Santa Clara County Grand Jury studied four special districts within that county. They evaluated them in light of the Little Hoover Commission report and their own investigation. They agreed with the Little Hoover Commission that “independent special districts often lack the kind of oversight and citizen involvement necessary to promote their efficient operation and evolution.”<sup>49</sup> They concluded that these special districts were “essentially invisible,” had “little guidance or impetus for streamlining,” “oversight and accounting appear to be lacking,” and “mechanisms are lacking to inform and engage the public.” They recommended special standards be established and put in place to measure special district performance and finances, and that reserves be reviewed regularly.

### **Local Agency Formation Commission (LAFCO)**

In 2003, LAFCO held a statewide conference to discuss special districts.<sup>50</sup> They concluded, “...there was general---although not universal---support...for statutory reforms on ethical behavior, directors’ compensation, and auditing procedures.” Some of the speaker comments included such statements as: “Legislators want to learn how to prevent future problems and they want to strengthen special districts’ integrity and accountability,” “special districts are the least understood but most numerous form of local government,” and that many special districts lack “protocols and standards,” “independent auditors may be ‘lax,’” etc. Recommendations included steps to be more transparent with salaries and operations, and to explain clearly to ratepayers what the reserves are and why they exist.

### **California Special Districts Association (CSDA)**

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<sup>48</sup> CDIAC; *Debt Line; Understanding Special Districts and Public Debt*; August 2000

<sup>49</sup> Santa Clara County Grand Jury; *Independent Special Districts—Oversight Falls Far Short!*; 2005-2006

<sup>50</sup> Senate Local Government Committee; *Integrity & Accountability: Exploring Special Districts’ Governance*; November 24, 2003

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The CSDA in 2007 produced a guide to the laws and codes that constitute the legal foundation for special districts.<sup>51</sup> This document gives clear direction on where to find the various State laws and codes that give special districts their authorization.

### **Kimia Mizany & April Manatt**

These two State Fellows produced a study in 2010 that documents the history of special districts and evaluates their advantages and disadvantages.<sup>52</sup> At that time, the State had 3,361 special districts. In addition to reviewing the history of special districts, they divided special districts into three categories: single versus multi-function, enterprise versus non-enterprise, and independent versus dependent.

Single function districts simply perform a single function while the others perform multiple functions. Eighty-five percent of the districts were considered single function, i. e., water, sewage, cemeteries.

Enterprise districts were defined as districts that “...deliver services that are run like a business enterprise; that charge for their customers’ services.” Approximately one quarter of the districts were considered enterprise districts. They noted, “Virtually all water, waste, and hospital districts are enterprise districts.” “Non-enterprise districts provide services which don’t lend themselves to fees.”

They also divided special districts into “independent” and “dependent” districts. Most districts were considered independent, i. e.; they “...have their own separate boards of directors elected by the districts’ own voters.” All the special districts in this 2011-12 Orange County Grand Jury report would be considered “independent”.

### **The Slo Coast Journal**

This central California journal produced an editorial in 2011 that concluded not all State and local laws protect the rights of the citizens. They cited two examples: “special districts and Local Agency Formation Commissions operate with far fewer legal restrictions than counties and cities. Citizens who have disagreed with the decisions and policies of these agencies have found that they had very limited recourse.”<sup>53</sup> They noted that the limited communication of the governing bodies of the special districts with their constituents leads to the “opportunity for abuse.”

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<sup>51</sup> California Special Districts Association; CSDA’s Guide to Special Districts Laws and Related Codes; 2007

<sup>52</sup> Mizany, K and Manatt, A; *What’s So Special About Special Districts? A Citizen’s Guide to Special Districts in California*, Fourth Edition; 2010

<sup>53</sup> The Slo Coast Journal; *California Special Districts and Local Area Formation Commissions—Government Agencies Outside the Law*; January 2011



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**Legislative Analyst' Office (LAO)**

In 2011, the California State's Legislative Analyst's Office (LAO) explored issues related to special districts.<sup>54</sup> They found evidence that "...in certain cases smaller districts can be less efficient and less accountable than larger districts," but they recognized that "...many factors affect the efficiency and accountability of special districts." They theorized that "Larger organizations may be better able to realize economies of scale by spreading fixed costs, like management, overhead, and infrastructure over more constituents, resulting in lower per capita expenditures," and "Consolidation of smaller districts also provides an opportunity to reduce personnel cost by eliminating some high-paying leadership positions such as fire chiefs or general managers and by reducing the total number of board members." They also pointed out that LAFCO has a common problem "...of the workload being more than their current budgets can support."

**SUMMARY OF FACTS**

Following is a brief summary of the facts derived from this study:

1. Special districts were founded to provide services for the local citizens before cities were either founded or matured. They created independent local governments to provide services that neither cities nor counties could adequately provide at that time. These services were initially funded by property taxes.
2. The first special districts in Orange County were founded in 1919 for libraries in the cities of Placentia and Buena Park when the electorate of each area was about 100. The last non-enterprise special district (Silverado-Modjeska Recreation & Parks District) was founded in 1961, and the last enterprise special district (Santa Margarita Water District) was founded in 1964. At that time, the county population was approximately 1,000,000, less than a third of the current population of over 3,000,000.
3. As independent government agencies, special districts are not under the control of the surrounding cities, the county, or state for their day-to-day operations. They were formed by the local electorate and certified by the County Board of Supervisors. Structural changes to the special districts would require a vote of the constituents within that district.
4. While special districts were founded as local governing agencies to meet the needs of the surrounding local residents, these constituents have provided limited public input at their meetings. Little or no public input is recorded in the minutes of their special district meetings.
5. The last community services district, Surfside Colony Community Service Tax District, was formed in 1960, 45 years after the surrounding city of Seal Beach was created. The last special district created in Orange County was the Santa Margarita Water District in 1964, 16 years before the city of Rancho Santa Margarita was incorporated.

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<sup>54</sup> California State Legislative Analyst Office; *Issues Related to Special Districts*; Roger Dickinson, Chair, Assembly Committee on Accountability & Administrative Review; October 21, 2011



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6. For more than fifty years various state and local agencies have studied special districts. Some of their conclusions were:

- Community service districts are no longer isolated and often integrally entwined with the homeowners associations. These community services districts can be removed from the county tax rolls and their responsibilities and costs borne by either their surrounding cities or homeowners' associations.
- Water and sewer districts could be funded solely by fees.

7. The existing special districts' inertia has withstood 50 years of various governmental agencies' recommendations to improve the system. Very little progress has been shown in complying with the various recommendations of the past. Exceptions are the South Coast Water district and the Irvine Ranch Water District that have absorbed surrounding smaller districts.

8. Special district independence was once a necessity due to lack of either city availability or county interest, and has been overshadowed and overtaken by the rapid growth of Orange County. The necessity of forming new special districts ceased when the Orange County population exploded after the 1950s and cities began to surround the special districts. Since that time, Orange County has changed from a rural community to wall-to-wall cities. The cities and the expanded county then began to provide many of the same services that were being provided by the special districts.

9. The Local Agency Formation Commission, LAFCO, has a list of special districts in Orange County that does not agree with the list from the County Auditor-Controller, who tracks the allocation of taxes. The Auditor-Controller includes County Service Areas and large countywide districts such as Flood Control, Parks, Fire Authority, Sanitation District, Transit Authority, as well as several smaller districts that are dependent on local city control. (Cypress Recreation and Parks, Garden Grove Sanitary, Laguna Beach Water, and Santiago Water districts.)

10. Special districts are funded by a variety of sources including taxes, fees, interest, assessments, and bonds. The non-enterprise districts are funded from 33% to 98% by allocations from the 1% property tax. All but three of the enterprise districts use the 1% property tax allocation to fund from 7% to 90% of their services. The three exceptions do not rely on any taxes.

11. Three of the enterprise special districts receive no allocation of taxes from the Auditor-Controller. They fund their services by assessments, fees, interest on investments and other fund sources. These are:

- Mesa Consolidated Water District.
- Municipal Water District of Orange County.
- Serrano Water District. .

12. Four other enterprise special districts have allocations of taxes from the Auditor-Controller but did not reflect them in their budgets provided to the Grand Jury. They are:

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- Costa Mesa Sanitary District;
- South Coast Water District;
- Trabuco Canyon Water District;
- Yorba Linda Water District.

Explanations for this difference include uncertainty of the State's financial condition.

13. Only two special districts are countywide, The Orange County Vector Control District and the Orange County Cemetery District. The former is funded by an allocation from the 1% property tax and a parcel tax assessment, and the latter is funded by an allocation from the 1% property tax and fees.

14. The special districts in Orange County have amassed more than \$866,000,000 in unrestricted reserves. These reserves that can be used at the agencies' discretion exceed the combined budgets of the special districts by over \$149,000,000. The reason for accumulating these reserves is not documented nor is the intended use for these funds clearly identified.

15. Sixteen Orange County special districts have unrestricted reserves exceeding their annual budgets. These special districts are:

- East Orange County Sanitary District.
- Irvine Ranch Water District.
- Midway City Sanitary District.
- Moulton Niguel Water District.
- Orange County Water District.
- Rossmoor/Los Alamitos Area Sewer District.
- Santa Margarita Water District.
- South Coast Water District.
- Sunset Beach Sanitary District.
- Trabuco Canyon Water District.
- Emerald Bay Service District.
- Orange County Cemetery District.
- Rossmoor Community Service District.
- Surfside Colony Community Service Tax District.
- Surfside Colony Storm Water Protection District.
- Three Arch Bay Community Service District.

16. Special districts collect more than \$182,000,000 each year in property taxes. The difference between this revenue and the total budgets of \$718,000,000 for all the special districts, (\$674,000,000) is made up of fees for services, bond income, interest on investments, and other income. The county charges the special districts more than \$933,000 to collect and distribute their taxes each year.

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17. All special districts have annual financial audits that are required by State law. Only one, the South Coast Water District, has had performance audits that described the operations and recommended improvements.

18. All special districts have web sites except four: Surfside Colony Community Service Tax District, Surfside Colony Storm Water Protection District, and Emerald Bay Service District.

19. The 1% property tax on the annual secured tax bill to property owners does not provide details of the agencies' portion. This hides from the taxpayer the allocation made to the various county funds and the special districts.

## **FINDINGS/CONCLUSIONS**

In accordance with *California Penal Code* §933 and §933.05, the 2011-2012 Orange County Grand Jury requires responses from each agency affected by the **Findings/Conclusions** presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court. See Table No. 3 in the back of this report for those **Findings/Conclusions** that apply to your agency.

Based on its investigation of special districts in Orange County, the 2011-2012 Orange County Grand Jury makes the following 15 Findings/Conclusions:

**F1.** Most Orange County special districts, with or without the assistance of the Local Agency Formation Commission (LAFCO), have been incapable or unwilling to consolidate, absorb, or eliminate these outmoded and/or redundant agencies. LAFCO typically addresses larger issues such as merging of cities and elimination of "islands" within the county. The special districts themselves have not worked seriously toward their consolidation or demise. In this regard, the enterprise special districts and the non-enterprise special districts require independent evaluation and handling.

**F2.** Special districts have made very little progress in complying with the recommendations made by various governmental agencies. To ensure recommendations are followed, more coordination and cooperation is needed from the city and county agencies.

**F3.** Most non-enterprise special districts in Orange County have outlived their purpose and usefulness. Services that they once only available through the special district are now being provided by the surrounding cities and the expanding county.

**F4.** The eleven non-enterprise special districts of Orange County founded before 1965 have not reflected the growth of the cities and county. The services that were unavailable from cities or the county have long since been made available as both the cities and county grew. Some of these special districts could be removed from the county tax rolls, and their services funded and absorbed by the county, surrounding cities or homeowners associations wherein they abide.

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**F5.** The sixteen enterprise districts typically started as local agricultural irrigation providers and sanitation providers for local communities. These special districts have transitioned into providers of potable water and sewerage disposal for the cities that blossomed around them after 1950. These districts grew until their boundaries met a neighboring special district that was also growing. Some of these local smaller providers have already been absorbed by larger districts under one management.

**F6.** The sixteen enterprise special districts of Orange County founded between 1919 and 1964 have grown with the urbanization of the county. Thirteen of these special districts rely upon taxes collected by the county while three rely on fees and other sources for their revenue. This suggests that all of these enterprise special districts could wean themselves from tax subsidies and rely on fees for their revenue. Severance from the tax subsidies would enable financial transparency and let the customers see the true cost of the services provided.

**F7.** The unrestricted reserves of the special districts are available to the governing boards to spend as they please. Local citizens are not openly informed of this wealth when agencies ask for fee increases, special assessments, or bond measures. Most of the special districts do not appear to have specific criteria for amassing these reserves nor do they have published long-range plans for their constructive use.

**F8.** The twenty-seven special districts in Orange County have amassed unrestricted reserves of over \$866,000,000. That is enough money to fund all of these special districts for more than year without taxes, fees, interest, or other sources of revenue. The boards of directors have the sole discretion to spend these unrestricted reserves.

**F9.** The Orange County Auditor-Controller allocated nearly \$35,000,000 to four enterprise special districts (Costa Mesa Sanitary District, South Coast Water District, Trabuco Canyon Water District, and Yorba Linda Water District) that did not show this revenue in their budgets provided to the Grand Jury. What happened to that money is not clearly recorded. Budgeting without the allocated taxes indicates that, along with the three other enterprise special districts that do not rely on tax revenue, these enterprise special districts could function without tax revenues.

**F10.** The enterprise special districts could save millions of dollars in administration costs by consolidation into regional special districts. Five or six such enterprise special districts within Orange County could save at least \$500,000 per year for each special district absorbed.

**F11.** The Buena Park Library and the Placentia Library (the oldest special districts in Orange County) have long outlived their original intent of providing reading materials for their original isolated communities with an electorate of about 100 people. They could readily be absorbed into the County Library System or the cities.

**F12.** The community services that the original non-enterprise special districts provided can be provided by the surrounding cities and the county that have engulfed these districts. Continuing

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to collect taxes for these special duplicative services is a disservice to both the community they serve and the surrounding communities that provide the same or similar services.

**F13.** The Surfside Colony Storm Water Protection District was formed in 1941 to protect the community from ocean swells during storms and high tide. Since then the community has changed and the local governments have grown to where these services can be performed by other county or city services, resources and equipment.

**F14.** The true cost of water and sanitary sewers in the enterprise special districts is hidden when both taxes and fees fund these districts. Only when the monthly service bills to the customers include all the costs for these services without the tax subsidy will the public understand the true cost of these services and achieve financial transparency.

**F15.** Only one of the special districts, The South Coast Water District, has had recent performance audits. The lack of performance audits for the remaining special districts leaves the potential for inefficiencies, poor practices, outmoded operations, etc. hidden from the governing boards and the communities they serve. The lack of published performance audits has contributed to the public's ignorance of these districts.

**RECOMMENDATIONS**

In accordance with *California Penal Code* §933 and §933.05, the 2011-2012 Orange County Grand Jury requires responses from each agency affected by the **Recommendations** presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court. See Table No. 4 in the back of this report for those **Recommendations** that apply to your agency.

Based on its investigation of special districts in Orange County, the 2011-2012 Orange County Grand Jury makes the following 10 recommendations:

**R1.** All special districts (except the Vector Control District and the County Cemetery District) should be eliminated from the county tax rolls and should rely solely on fees or the services of surrounding governments. (See F2, F3, F4, F5, & F6.)

**R2.** Community service districts should be absorbed either in the cities surrounding them or into surrounding private homeowners associations. Each community service district should meet with LAFCO and with the appropriate city or homeowner's association to develop plans and schedules for the future of these special districts. This meeting should be take place before September 30, 2012. (See F3, F4, & F12.)

**R3.** Library districts should be absorbed into the County Library System. Both the Buena Park and the Placentia Libraries should meet with LAFCO and their cities or County Library System before September 30, 2012 to develop plans and schedules for consolidation and removal from the tax rolls. (See F11.)

INDEPENDENT SPECIAL DISTRICTS OF ORANGE COUNTY, CALIFORNIA

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**R4.** Water and sewer districts should be consolidated into no more than six regional districts. Consideration should be given to including the city water agencies in the consolidation. LAFCO should meet with the water and sewer districts before October 31, 2012 to develop plans and schedules for consolidation. (See F5, F6 & F9.)

**R5.** Water and sewer districts should be removed from the tax rolls and operate solely on fees and other revenues for their services. Consideration should be given to forming non-profit agencies with ownership shared by the constituents. These districts should meet with county officials before October 31, 2012 to prepare plans and schedules to remove themselves from the county tax rolls. (See F2, F5, & F6.)

**R6.** Special districts should adopt “board of director’s practices” for all their reserves, restricted and unrestricted. All reserves should be classified in their 2013-2014 budgets according to GASB Standard No. 54. LAFCO should work with the special districts to prepare standard criteria for accumulating reserves according to the new classifications by December 15, 2012. These standards should be used in preparing the 2013-2014 budgets. (See F7 & F9.)

**R7.** Excessive unrestricted reserves should be used to reduce existing debts. Future revenues should be reduced to avoid the accumulation of unallocated revenue that does not meet the adopted new standards. (See F7 & F8.)

**R8.** Each special district should have an independent performance audit at least every three years. The executive summary of the performance audit should be distributed to all the taxpayers of each special district. Each of the special districts that has not had a performance audit within the last five years should contract with an independent outside consultant to conduct such an audit during 2012. These audits should be repeated at least every three years. (See F15.)

**R9.** Each special district should contribute 1% of its unrestricted reserve fund to LAFCO to help finance preparing and directing the consolidation, absorption, or elimination, and the setting of standards for reserves for the special districts. These funds should be included in LAFCO’s future programs and budgets until the consolidation, absorption or elimination of each special district is achieved. With these additional funds, LAFCO should begin meeting with each special district before the 2014 fiscal year is budgeted for consolidation, absorption and/or elimination of these districts. (See F1, F2, F3, F4, F5, & F6.)

**R10.** The Orange County Tax Collector should obtain all the specific allocations for the 1% property tax from the County Auditor-Controller and show them on the tax bill (not just the current generalized summary) sent to each property owner so that the taxpayers are informed of how much each service is costing them. (See F14.)

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INDEPENDENT SPECIAL DISTRICTS OF ORANGE COUNTY, CALIFORNIA

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## REQUIRED RESPONSES

The Board of Directors of each of the special districts and the Orange County Auditor-Controller and Tax Collector shall respond to the Findings and The Recommendations as specified in Tables No. 3 and No. 4. In accordance with *California Penal Code* §933 and §933.05, the 2011-2012 Orange County Grand Jury requires responses from each agency affected by the **Findings/Conclusions** and **Recommendations** presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

*“Not later than 90 days after the grand jury submits a final report on the operations of any public agency subject to its reviewing authority, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under the control of the governing body, and every elected county officer or agency head for which the grand jury has responsibility pursuant to Section §914.1 shall comment within 60 days to the presiding judge of the superior court, with an information copy sent to the board of supervisors, on the findings and recommendations pertaining to matters under the control of that county officer or agency head and any agency or agencies which that officer or agency head supervises or controls. In any city and county, the mayor shall also comment on the findings and recommendations...”*

Please see page 30 for the **Findings/Conclusions** response matrix, and page 31 for the **Recommendations** response matrix.



## INDEPENDENT SPECIAL DISTRICTS OF ORANGE COUNTY, CALIFORNIA

**Table No. 3 - RESPONSES REQUIRED TO FINDINGS/CONCLUSIONS**

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15
Buena Park Library Dist.	X	X	X	X			X	X			X	X			X
Capistrano Bay Com. Serv. Dist	X	X	X	X			X	X				X			X
Costa Mesa Sanitary Dist.	X	X			X	X	X	X	X	X				X	X
E Orange Co Water Dist.	X	X			X	X	X	X		X				X	X
El Toro Water Dist.	X	X			X	X	X	X		X				X	X
Emerald Bay Service Dist.	X	X	X	X			X	X							X
Irvine Ranch Water Dist.	X	X			X	X	X	X		X				X	X
Mesa Consolidated Water Dist.	X	X			X	X	X	X		X					X
Midway City Sanitary Dist.	X	X			X	X	X	X		X				X	X
Moulton Niguel Water Dist.	X	X			X	X	X	X		X				X	X
MWD of Orange Co.	X	X			X	X	X	X		X					X
Orange Co. Cemetery Dist.	X	X	X	X			X	X							X
Orange Co. Vector Control Dist.	X	X	X	X			X	X							X
Orange Co. Water Dist.	X	X			X	X	X	X		X				X	X
Placentia Library Dist. Of OC	X	X	X	X			X	X			X	X			X
Rossmoor Com. Serv. Dist.	X	X	X	X			X	X		X		X		X	X
Rossmoor/Los Alamitos Area Sewer Dist.	X	X			X	X	X	X		X				X	X
Santa Margarita Water Dist.	X	X			X	X	X	X		X					X
Serrano Water Dist.	X	X			X	X	X	X		X					X
Silverado-Modjeska Rec. & Parks Dist.	X	X	X	X			X	X							X
South Coast Water Dist.	X	X			X	X	X	X	X	X					X
Sunset Beach Sanitary Dist.	X	X			X	X	X	X		X				X	X
Surfside Colony Com. Serv. Tax Dist.	X	X	X	X			X	X				X			X
Surfside Colony Storm Water Pro. Dist.	X	X	X	X			X	X				X	X		X
Three Arch Bay Com. Serv. Dist.	X	X	X	X			X	X				X			X
Trabuco Canyon Water Dist.	X	X			X	X	X	X	X	X				X	X
Yorba Linda Water Dist.	X	X			X	X	X	X	X	X				X	X
LAFCO	X	X	X	X	X	X					X	X	X		X
Orange County Auditor-Controller									X			X		X	
Orange County Tax Collector														X	

## INDEPENDENT SPECIAL DISTRICTS OF ORANGE COUNTY, CALIFORNIA

**Table No. 4 - RESPONSES REQUIRED TO RECOMMENDATIONS**

	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Buena Park Library Dist.	X		X			X	X	X	X	
Capistrano Bay Com. Serv. Dist.	X	X				X	X	X	X	
Costa Mesa Sanitary Dist.	X			X	X	X	X	X	X	
E Orange Co Water Dist.	X			X	X	X	X	X	X	
El Toro Water Dist.	X			X	X	X	X	X	X	
Emerald Bay Service Dist.	X	X				X	X	X	X	
Irvine Ranch Water Dist.	X			X	X	X	X	X	X	
Mesa Consolidated Water Dist.	X			X	X	X	X	X	X	
Midway City Sanitary Dist.	X			X	X	X	X	X	X	
Moulton Niguel Water Dist.	X			X	X	X	X	X	X	
MWD of Orange Co.	X			X	X	X	X	X	X	
Orange Co. Cemetery Dist.	X					X	X	X	X	
Orange Co. Vector Control Dist.	X					X	X	X	X	
Orange Co. Water Dist.	X			X	X	X	X	X	X	
Placentia Library Dist. Of OC	X		X			X	X	X	X	
Rossmoor Com. Serv. Dist.	X	X				X	X	X	X	
Rossmoor/Los Alamitos Area Sewer Dist.	X			X	X	X	X	X	X	
Santa Margarita Water Dist.	X			X	X	X	X	X	X	
Serrano Water Dist.	X			X	X	X	X	X	X	
Silverado-Modjeska Rec. & Parks Dist.	X	X				X	X	X	X	
South Coast Water Dist.	X			X	X	X	X	X	X	
Sunset Beach Sanitary Dist.	X			X	X	X	X	X	X	
Surfside Colony Com. Serv. Tax Dist.	X	X				X	X	X	X	
Surfside Colony Storm Water Protection Dist.	X	X				X	X	X	X	
Three Arch Bay Com. Serv. Dist.	X	X				X	X	X	X	
Trabuco Canyon Water Dist.	X			X	X	X	X	X	X	
Yorba Linda Water Dist.	X			X	X	X	X	X	X	
LAFCO		X	X	X	X	X			X	X
Orange County Auditor-Controller	X				X					X

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**APPENDIX A**

Previous Orange County Grand Jury Reports

on

Special Districts

***Report on Special Districts and County Islands***; 1971 Orange County Grand Jury; October 21, 1971

***Special District Task Force Review, A Final Report of the 1985-86 Orange County Grand Jury***; June 1986; 1985-86 Orange County Grand Jury

***Reorganization of Special Districts***; 1981-82 Orange County Grand Jury

***Evaluation of the Orange County Cemetery District***; June 1990; 1989-90 Orange County Grand Jury

***Study of the Local Agency Formation Commission and Report on Impact of City Incorporations on Orange County***; June 1990; 1989-90 Orange County Grand Jury

***Capistrano Beach County Water District Report***; 1992-93 Orange County Grand Jury

***Water Distribution and Rates within Orange County***; 1996-97 Orange County Grand Jury

***Rats***; 2001-2002 Orange County Grand Jury

***A Selected Study of the Local Agency Formation Commission***; 1996-97 Orange County Grand Jury

***The Orange County Public Library System: A Future***; 1993-94 Orange County Grand Jury

***LAFCO-Is It Working?***; 2004-05 Orange County Grand Jury

***Orange County Cemetery District***; 2004-05 Orange County Grand Jury

***Orange County Vector Control District-Out of Control?***; 2005-06 Orange County Grand Jury

***Water Districts; A New Era in Public Involvement***; 2008-09 Orange County Grand Jury

***Compensation Survey of Orange County Water and Sanitation Districts***; 2010-2011 Orange County Grand Jury